

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6015

BILL NUMBER: HB 1119

DATE PREPARED: Jan 28, 1999

BILL AMENDED:

SUBJECT: Higher Education Expense Deduction.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(15,000,000)	(15,600,000)
State Expenditures			
Net Increase (Decrease)		(15,000,000)	(15,600,000)

Summary of Legislation: This bill would provide a state adjusted gross income tax deduction of up to \$5,000 for tuition and fees paid for a course of study for the taxpayer or a dependent of the taxpayer at a public or private institution of higher education located in Indiana.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: There would be some administrative costs for the Department of Revenue to revise tax forms, instructions and computer programs to implement this new tax deduction.

Explanation of State Revenues: (Revised) This bill would provide a \$5,000 income tax deduction to Indiana residents for tuition and fees paid for a course of study at a public or private institution of higher education located in Indiana. This deduction would not include the cost of textbooks. The deduction would be for each individual for whom the taxpayer pays tuition and fees (the maximum deduction may not exceed the taxpayer's total adjusted gross income).

Based on data from the Commission for Higher Education, it is estimated that a maximum \$5,000 income tax deduction for these expenses would result in a revenue loss of approximately \$15 M in FY 2000, and \$15.6 M in FY 2001. The revenue loss would continue to grow at approximately 4% annually for years after.

This analysis assumes a January 1, 1999 effective date and assumes that taxpayers would have tuition receipts for the spring 1998-1999 semester and the fall 1999-2000 semester to be able to claim on their tax returns filed in April 2000.

This estimate is based on tuition and fees reported by the Commission of Higher Education and assumes that all these costs would be eligible for the deduction (no adjustment for financial aid has been made). This analysis also assumes a stable base of full and part time students with tuition and fees growing at **4%** annually for the next few years.

Individual income tax is deposited in the State General Fund.

If this new tax deduction were to encourage more Indiana residents to attend an institution of higher education within the state, increased enrollment would generate additional revenue in terms of tuition and fees for these institutions.

Explanation of Local Expenditures:

Explanation of Local Revenues: The new deduction would reduce income tax revenue for those counties that impose a local option income tax by an indeterminable amount.

State Agencies Affected: Department of Revenue, Institutions of Higher Education.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Jeff Weber, Commission for Higher Education, (317) 464-4400.